 Phillips, Kevin Soc. 4.01.2 "Post-Conservative America"

ARTICLE APPEARED ON PAGE 28

THE WALL STREET JOURNAL
17 June 1982

Kevin Phillips's Predictions of a Nation in Conflict

By George Gilder

Kevin P. Phillips, the leading conservative electoral analyst—the man who invented the Sun Belt, named the New Right and prophesied "The Emerging Republican Majority" in 1969—brings shocking tidings for the 1980s. In his new book, "Post-Conservative America" (Random House, 261 pages, $14.50), he predicts an era of violent upheaval, as Ronald Reagan's conflicting majority of populists and patricians falls apart, his tax cuts foster depression (just as, Mr. Phillips asserts, Calvin Coolidge's did), Middle America rages and youths throng to take inspiration from Gordon Liddy and Conan the Barbarian.

The Bookshelf

"Post-Conservative America"
By Kevin Phillips

President Reagan, says Mr. Phillips, was elected by a populist right-wing movement venting its frustrations against an amoral modernist culture of sexual liberation, atheism and drugs. But Mr. Reagan cannot make the grade as a true populist conservative leader, according to Mr. Phillips, because he wants to cut the tax rates of the rich. By adopting supply-side economics and muting the social issues that elected him, Mr. Reagan has sorely misjudged his mandate and opened the way for some combination of Sun Belt "apple pie authoritarianism" and evangelical extremism.

Adapting his shrewd electoral analysis to chic fears and prejudices about the sinister potential of Americans who believe in God and family, Mr. Phillips has produced the perfect conservative book for a liberal New York publisher. The book has everything going for it, from Weimar analogies and CIA plots to a revival of the old favorite specters of Vietnam and Watergate. It may even introduce a new school of best seller: Gothic psephology, in which liberty and order are threatened repeatedly by a creature from the dark lagoon of the American electorate—some rough beast slouching toward Washington when the center cannot hold.

Supply-side economics, according to Mr. Phillips, gravely misreads the Tax Revolt begun by Proposition 13 in California. This, he says, was a populist, not a conservative or free-market movement, and was directed chiefly against the *regressive* features of property taxes. When supply siders attempted to extend the revolt to the progressive income tax and, as he claims, gave most of the tax cut benefits to the rich, Mr. Reagan's program lost touch both with the real constituency for tax cuts and with his populist majority.

In behalf of this theory, Mr. Phillips cites the resounding defeat of California's Proposition 9, the anti-income tax measure that followed 13. But as is shown in a fine new book on "The Tax Revolt" by Alvin Rabushka and Pauline Ryan (Hoover Press, 1982), the reasons for the defeat of Prop 9 are much more complex than Mr. Phillips allows. Moreover, he ignores the repeated defeat of efforts by liberals in Massachusetts to impose progressive features on the state's flat-rate tax, and he ignores the 80% majorities won by Jack Kemp and his across-the-board tax-cut strategy in a predominantly Democratic district. Just last week, Californians voted to rescind the state's progressive taxes on gifts and inheritances.

To buttress his argument that supply-side economics is anti-populist, Mr. Phillips presents several misleadingly static charts and tables showing the effects of tax cuts on the distribution of incomes from the 1920s to today. Such charts are usually dominated by the greater willingness to earn and report high incomes in taxable forms when the rates are lower. The 1920s chart, in which the greatest upsurge in the top brackets actually preceded the tax cut, also reflects movement away from an abnormal wartime distribution.

Moreover, since the top fifth of income earners pay more than 70% of the income taxes, any even cut will seem to favor the upper brackets (as did Prop 13 by that measure). But this top group, comprising family incomes of over $25,000, is anything but a settled class of "the rich." Some 42% of them drop to a lower quintile every seven years, to be replaced by others. The vast majority of intact families can reasonably hope to get to the top fifth at some point in their lives, and most of them, by dint of years of relentless labor and sacrifice, in fact make it during their late 30s and early 40s, when child-care expenses peak. They then feel a "populist" rage at being called rich and taxed as such by the government.

During the 1920s, the Coolidge administration reduced the top rate from 73% to 25% in four years, and tax payments by the rich rose nearly 200%. But in a truly fatuous chapter, Mr. Phillips says this tax cut caused the Great Depression by bringing a "speculative bubble," together with overproduction, underconsumption, and excess profits: "*Too few* people had *too much* of the money" to sustain demand.

But as Alan Reynolds has shown, the doubling of stock prices during the late 1920s reflected a 61% increase in dividends per share during the decade, and a doubling of production in autos, crude oil, electricity and other basic industries, together with a boom of innovation in radios and appliances. Foreign stock markets from France to Japan rose even faster, with only remote help from Calvin Coolidge. The 1920s were a period of solid growth and rapid change, brought to a screeching halt by the Smoot-Hawley tariff and a maniacal siege of tax hikes and central-bank errors.

Throughout the 1930s, under both Hoover and Roosevelt, every sign of economic vitality was summarily extinguished with tax hikes. In 1932, in a now familiarly perverse effort to balance the budget, Hoover approved the greatest percentage tax hike in peacetime history. Altogether during the '30s, the corporate tax rate nearly doubled, estate tax rates more than tripled, and the top personal rate rose from 24% to 79%. In 1936, Roosevelt even afflicted the market with a tax on undistributed profits. Economists who blame the Depression on business refusal to invest despite allegedly low interest rates (actually at an all-time high adjusted for deflation) show their utter incomprehension of the sources of economic growth.

Mr. Phillips, however, blames it all on Mr. Coolidge and high profits. In the usual demand-side error, he confuses profits with profit margins, and assumes that margins ballooned during the 1920s. In fact, margins declined, as they do in supply-side booms, and total profits rose as sales volume increased; but profits as a share of the still more rapidly growing GNP *dropped* by 15% compared with the previous decade. Meanwhile, between 1922 and 1929, employee pay rose from 55% to 60% of national income, real wages rose 17.3%, and personal consumption spending rose to three-quarters of GNP. The underconsumption-overinvestment theory of the crash corresponds with no valid data about the period.

Kevin Phillips attacks Mr. Reagan and the supply siders for a reactionary nostalgia for the 1920s. But supply-side capitalism is a system of inexorable change and progress. By contrast, the implicit policy agenda of "Post-Conservative America" (Mr. Phillips pays his respects to every liberal economic nostrum from corporate state planning to income redistribution) will lead to stagnation and social conflict: a zero-sum society suggestive of the 1930s. Indeed, it is only through such policies, prompted by a narrow and self-fulfilling cynicism about public opinion—and a cramped vision of capitalist possibilities—that Mr. Phillips's grim prophecies can come true.

Mr. Gilder, program director of the Manhattan Institute for Policy Research, is author of "Wealth and Poverty" (Basic Books).